



DEPARTMENT OF THE AIR FORCE
WASHINGTON, DC

OFFICE OF THE ASSISTANT SECRETARY

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MEMORANDUM FOR AFMC/CC

FROM: SAF/AQ
1060 Air Force Pentagon
Washington DC 20330-1060

SUBJECT: Public-Private Competition Cost Procedures

The Defense Depot Maintenance Council (DDMC) Cost Comparability Handbook (CCH) provides procedures to insure cost comparability when competing depot maintenance workloads between public sources and the private sector. This memorandum provides additional guidance and supersedes the SAF/AQ/FM memoranda dated 20 December 1996 and 11 February 1997.

The following information will be included in the Sacramento and San Antonio Logistics Center public/private competition requests for proposals: 1) offers submitted by both private and public sector sources will be considered; 2) in comparing offers, the total estimated direct and indirect costs that will be incurred by the DoD and the total estimated direct and indirect savings (including overhead) that will be derived by the DoD will be taken into account; 3) any offeror, whether public or private, may offer to perform the workload at any location or locations selected by the offeror and to team with any other public or private entity to perform that workload at one or more locations; 4) the fair market value (or if fair market value cannot be determined, the estimated book value) of any land, plant, or equipment from a military installation that is proposed to be used to meet a specific workload will be taken into account; and 5) no offeror will be given any preferential consideration for, or in any way be limited to, performing the workload in-place or at any other single location; real differences among offerors in cost or capability to perform the work based on factors that would include the proposed location or locations of the workload will be considered. Provisions on depreciation will also be included in such requests for proposals, consistent with the guidance herein.

Financial Procedures/Cost Proposal Development: All potential competitors, both public and private, must be able to demonstrate that their offers accurately reflect the total estimated costs of performing the workload and that all costs, both direct and indirect, are properly charged. To the extent that offerors' proposals are deficient in any area in meeting these standards, the evaluation teams may apply cost/risk assessments and adjustments to the proposals. To ensure a full and fair evaluation, the following guidelines are provided:

a. Public cost proposals shall be prepared in accordance with the CCH, including the 28 January 1998 revision. Both public and private proposals must adhere to the same high standards of accounting, consistency and objectivity. It is important that all cost information included in the proposal be provided from validated accounting systems which provide financial information available on a recurring basis. For the public offeror, this standard can be met through the use of the RCS 7118 report with supporting information for costs and savings related to changing depot workload being presented in the General Ledger Account Category (GLAC) format. The public offeror must identify for each GLAC the percent costs in each cost category of costs that are fixed, variable, or semi-variable. These relationships will explain changes driven by additional workloads and show a track to the cost categories represented in the RCS 7118 report. The single most important factor in determining potential overhead savings is to establish a well documented relationship describing how increased workload will impact future overhead costs. Savings in overhead can only result if indirect and General and Administrative costs increase less than proportionally with the percent increase in workload. This relationship shall be demonstrated in both the private and public offeror's proposals. In the case of the public offeror, this relationship can be monitored in recurring RCS 7118 reports. In the case of the private offeror, this relationship can be monitored through Defense Contract Audit Agency (DCAA).

b. Headquarters Air Force Materiel Command will review and approve the public offeror's cost proposal prior to submission. Because of the impact on AFMC's workload decisions, the AFMC Depot Maintenance Business Activity Group (DMAG) business area Chief Operating Official shall ensure that the public offeror's approach is technically achievable, financially supportable, and account for other risks (financial or programmatic) to other workloads at the public offeror's proposed location(s).

c. All proposals, both public and private, must include summary financial statements that will serve as a firm analytical base for determining how costs vary with time, and changes in production levels. Even though such statements may not be mandated under generally accepted accounting principles (GAAP), they are considered very important. The public depot will comply with DoDI 7000.14-R Financial Management Regulation. Each depot's cost estimating system shall be validated by the DCAA before proposal submission, where possible, but shall be validated no later than the request for final proposal revision in order to ensure proposal costs are estimated as accurately as possible.

d. Public offerors shall be required to provide a Disclosure Statement prior to or at proposal submission. Private offerors will provide statements as required by the Federal Acquisition Regulation (FAR) and Supplements to the FAR.

e. The contracting officer shall require the public source submitting cost or pricing data to execute a Certificate of Full Cost Inclusion (Atch 1) with its proposal, and all updates thereto.

f. All public offeror cost proposals shall be audited by the DCAA. Private offerors' cost proposals shall be audited as required by the contracting officer.

g. Incurred cost audits of all public awards shall be conducted by the DCAA or a public accounting firm. Private awards will be audited as required by Defense Federal Acquisition Regulation Supplement.

h. The Defense Contract Management Command will be requested to review the public or private offeror's proposed approach to performance monitoring for adequacy.

i. DoD FMR 7000.14-R, Vol. 11B requires that Bid and Proposal (B&P) costs incurred in a cost accounting period not be assigned to any other accounting period. Each public offeror shall ensure all product directorates (or equivalent) involved in the competition process initiate the necessary actions required to identify and track all B&P costs. These costs shall be included in the overhead cost (CCH Form 1, Line 5, General & Administrative Expense) in the rate structure for all bids and proposals.

j. The AFMC business unit for depot maintenance is the center organic portion of the Working Capital Fund, i.e., Depot Maintenance Business Activity Group (DMAG). This business unit will be the pool for allocating indirect expenses and serve as the recipient for General and Administrative (G&A) cost allocation. Redistribution of allocations will be directed to the product lines. Necessary cost comparability adjustments will be directed to the business unit with appropriate redistribution to product lines.

k. During proposal preparation, public depot offerors may adjust existing labor standards if the standards are determined to require revision. As with any other aspect of competition, adjustments to labor standards must be documented, supportable, and auditable. The Source Selection Evaluation Board (SSEB) will assess the validity of labor standard adjustments. In the case where a public depot competes for workload at another public depot, the rates at the depot where the work is currently being done need not apply to the competing depot. Rather, the proposal should be based on the competing depot's efficiency and effective use of process improvements, not on the stabilized rate structure of the depot where the work is currently being performed. However, the competing public depot shall provide data, i.e., other work being performed at the competing depot that has the same level of efficiency in order to substantiate their efficiency and effective use of process improvements.

Cost Comparability Evaluation: Proposals received in response to public/private competition solicitations shall be evaluated in accordance with the CCH including the 28 January 1998 revision. The CCH Cost Comparability Format, Form 2, shall be used to make below-the-line adjustments to both the public and private offerors' proposals. In order to make the best possible source selection decision, the following adjustments shall also be made to public and private proposals that reflect actual costs and/or benefits to the government:

- a. Line C-2 of the CCH Comparability/Bid Proposal Worksheet, Form 1, Other Non-Recurring Costs, allows the public offeror to make an adjustment for other non-recurring costs. Any transition costs required to meet competitive workload requirements would be included in this cost category. Possible transition costs include but are not limited to: equipment relocation, technical data, training, source certification, environmental site licenses, personnel transition (other than Reductions in Force (RIFs)), and other transition activities. An adjustment shall be made to any public or private offeror's total evaluated cost for any transition costs or savings to the government that are not included in the offeror's proposal. The adjustment will be made on Line C of the CCH Comparability Format, Form 2, by adding estimated costs and subtracting estimated savings, not included in the proposal, to the offerors contract proposed price. For evaluation purposes, both the public and private offerors shall provide a description of all transition costs included in their proposal.
- b. The CCH includes an adjustment of the Comparability/Bid Proposal Worksheet, Form 1, line C-1, for non-recurring capital expenditure costs. This adjustment is for the amount of appropriated funds required to purchase equipment, modify facilities or construct facilities to meet competitive workload requirements. Instead of treating these costs as a one-time non-recurring adjustment on line C-1, the public offeror shall make a depreciation adjustment for newly acquired, modified, or constructed facilities and equipment to meet competitive workload requirements. This adjustment should be made on line 22 of Form 1. The annual depreciation expense shall be calculated using the straight-line method. Capitalized cost less scrap value, will be allocated over the useful life of the assets used in performing the workload. The useful life of facilities and equipment will be determined based on Cost Accounting Standard 409. The depreciation schedule for assets assumed to be transferred from one public depot to another shall be used in the evaluation and shall remain in effect after the transfer. New assets will be capitalized at purchase price plus transportation, design, installation, and other costs necessary to put the asset in place. Assets that are modified or constructed shall be capitalized at amounts that include all indirect costs properly allocable to such assets.

c. Section H of the CCH Cost Comparability Format, Form 2, allows an adjustment for other public or private costs. Additional adjustments that shall be included under this section are:

(1) A federal income tax adjustment shall be made to each private offeror's proposed price based on guidance provided in OMB Circular A-76 dated March 1996. To determine the amount of estimated federal income tax, the contract price for each performance period will be multiplied by the appropriate tax rate contained in Appendix 4 of OMB Circular A-76. The estimated amount of Federal income tax shall then be deducted from the private offeror's proposed price for comparability purposes. If a private offeror has paid no federal taxes for the two previous tax years, that must be reported in the private offeror's proposal.

(2) A cost of money adjustment shall be made to each private offeror's proposed price for certain capital assets. In order to make this adjustment, the private offerors shall identify the total cost of money for those capital assets valued in excess of \$100,000 that will be purchased to meet the contract workload.

(3) An adjustment for overhead cost/savings to be realized for other workload performed by the offeror during performance of the workload to be awarded shall be made to each public or private offeror's proposal. The offeror will fully demonstrate how each increment of additional workload impacts future overhead rates and savings by fiscal year. These proposed savings shall be based on recent historical experience and a specific business base forecast that establishes a statistical relationship between hours worked and overhead costs with appropriate supporting detail. Due to uncertainty in forecasting long term overhead rates by both the public and private offerors, the ability to forecast associated out-year savings significantly diminishes with time. Therefore, emphasis will be placed on detailed analysis and supporting documentation of management initiatives to ensure that these savings will take place, particularly those accruing more than 24 months from award of the public/private competition workload. The first year savings, if reasonable, will be allowed. Second year savings, if supportable, will be allowed but discounted for risk. For three years and beyond, the ability to accurately forecast output levels is much less likely. Therefore, the savings for three years and beyond may be allowed if clearly appropriate, but in any event will be considered under the best value analysis. Evaluated savings identified in the public offeror's proposal will result in adjustments to the Working Capital Fund by fiscal year. Private offerors will submit a special contract clause in their proposal stating that as consideration for receiving the contract, the offeror agrees to renegotiate the Government contracts for which the private offeror has proposed savings. The private offeror will also submit a Forward Pricing Rate Agreement renegotiation proposal to the Administrative Contracting Officer which includes the same cost base and pool data used as a base for the overhead savings. Therefore in both the public and private offeror's proposals, the Air Force will be placing

emphasis on demonstrated savings that can be incorporated into the budget process.

(4) An adjustment shall be made to any public or private offeror's proposal if cost impacting issues have not been resolved through discussions.

(5) An adjustment shall be made to any public or private offeror's proposal if it is determined that there are unsupported differences in the labor standards or standard hours contained in the proposal, as compared to the labor standards or standard hours of the current workload.

(6) An adjustment shall be made to any public or private offeror's proposal for depreciation if the depreciation of assets is not properly accounted for in the proposal.

(7) An adjustment shall be made to any private offeror's proposal if it includes award fees/incentives. The adjustment shall be made according to guidance provided by OMB circular A-76 by adding 65% of the annual maximum fee/incentive to the proposed price for each year of the proposal.

(8) Since no change will be made to the depreciation schedule for assets transferred from one depot to another, an adjustment shall be made to any private offeror's proposal for depreciation of government furnished equipment (GFE) requested in their proposal which will be provided with the workload. The existing depreciation schedule will be used for purposes of determining the depreciation expense adjustment.

(9) Since the public offeror will include the cost for material in their proposal, an adjustment shall be made to any private offeror's proposal for the value of government furnished material (GFM) requested in their proposal which will be provided with the workload by adding the GFM value to the proposed price.


(10) All public and private offerors must include the costs for all resources needed to perform the workload.

(11) In recent years the Working Capital Fund has experienced losses. Since DoD Working Capital Fund policy requires that all losses be recovered, special attention must be paid to past cost performance. It is appropriate to categorize public offers as cost type contracts. The source selection team will evaluate different risk factor adjustments based on their evaluation of cost realism and past performance.

The SSA shall approve the release of any cost information related to the workload under competition. Any cost information released with the solicitation must be provided to all prospective offerors on an equal basis.

These procedures apply to AFMC acquisitions identified for public/private competitions estimated at not less than \$3 million in value that involve depot-level maintenance and repair, as defined in 10 U.S.C. 2460 definition of depot level maintenance and repair. Some procedures may not be appropriate for every source selection situation. Any changes to these procedures will be addressed through the acquisition strategy process and approved in the Acquisition Plan. Each individual solicitation will include a description of how the CCH process, and all relevant procedures, will be applied, and a provision on the overall Basis for Award.

These interim procedures will be rescinded upon inclusion of comparable guidance in DoD, OMB, or Air Force directives.


DARLEEN A. DRUYUN
Principal Deputy Assistant Secretary
(Acquisition and Management)

Attachment:
Certificate of Full Cost Inclusion